Revenue Estimates

The long-anticipated recovery of California revenues arrived in 2003 and the outlook for 2004 and 2005 is for continued, though moderate, growth. Therefore, the revenue outlook has improved from what was expected at the time the 2003-04 May Revision was prepared. Since enactment of the 2003 Budget Act, the General Fund revenue forecast for major taxes and licenses has increased by $1.7 billion for the past and current years combined. In addition, an increase of 4 percent in revenues, or $2.9 billion, to $76.4 billion is expected for 2004-05. The revenue increase includes significant gains in the three major taxes: personal income tax, sales tax, and corporation tax.

Improvement in the California economy began late in 2002, with taxable sales showing year-over-year growth beginning in the third quarter of 2002, after four consecutive quarters of negative growth. During 2003, personal income tax withholding also began to show year-over-year growth, after declining nearly every month since mid-2001. Finally, personal income tax estimated payments are expected to recover in the fourth quarter of 2003, after 11 consecutive quarters of negative growth. These indicators are shown in Figures REV-1, REV-2, and REV-3.

FIGURE REV–1

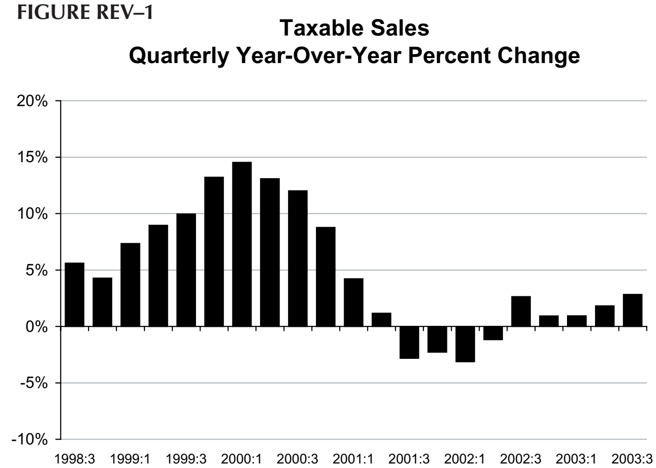


FIGURE REV–2

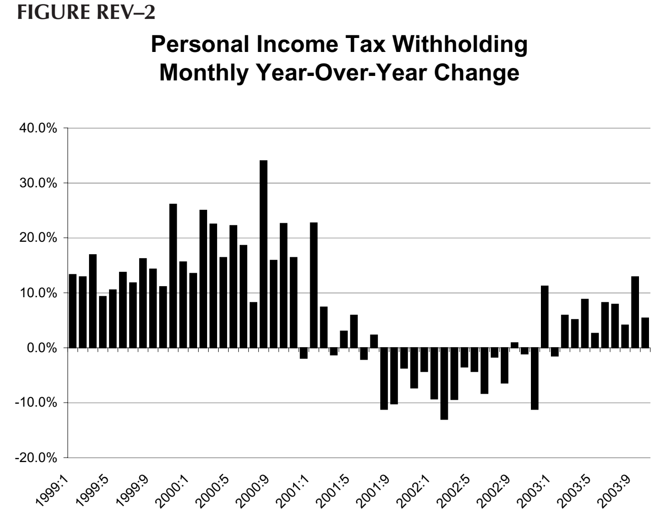


FIGURE REV–3

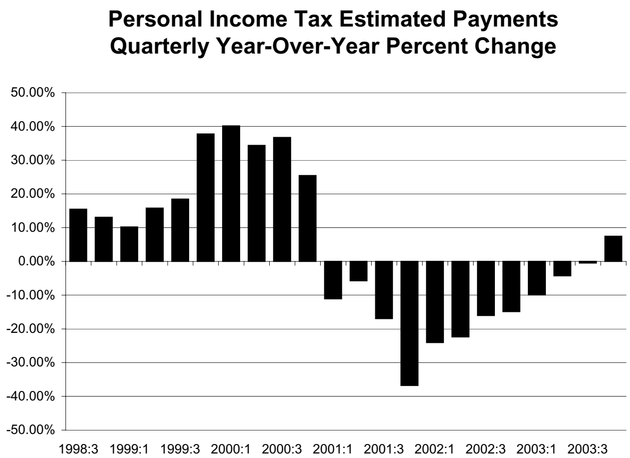
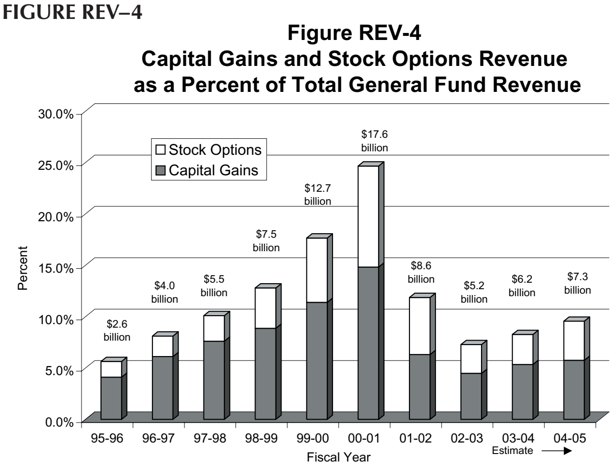


FIGURE REV–4



Note: An assumed tax rate of 9 percent was used to calculate the tax revenue from capital gains and stock options.

FIGURE REV–5

General Fund Revenue
(Dollars in Millions)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
Personal income tax	$32,710	$35,117	$38,043
Sales and use tax	22,415	23,714	25,022
Corporation tax	6,804	7,466	7,609
All other	9,393	8,330	5,733
Total revenues and transfers	**$71,322**	**$74,627**	**$76,407**
Annual percent change	**-1.3%**	**4.6%**	**2.4%**

The 2002-03 total figure does not include $9.242 billion in Economic Recovery Bond revenues.
The 2003-04 total figure does not include $3.012 billion in Economic Recovery Bond revenues.

As has been noted for some time, the State's remarkable revenue growth in the late 1990s was driven by stock market-related gains, while the fall-off from 2000 through 2002 largely reflected the market's decline. With regard to market-related income, growth is expected to resume in 2004 and should continue, albeit at more sustainable levels. Figure REV-4 shows the portion of General Fund revenues from capital gains and stock options.

Despite the positive developments in the economic and revenue outlook, revenue growth alone will not solve the State's budget problems. Because of the accumulated deficit and the structural deficit, the Governor's Budget includes major program reductions and restructuring, as described in other sections.

Figure REV-5 provides a summary of the revenue forecast for 2003-04 and 2004-05, as well as a preliminary report of actual receipts for 2002-03.

Revenue Provisions

Last year, several revenue-generating provisions were enacted, including restricting abusive tax shelters, preventing banks from utilizing Regulated Investment Companies (RIC) to avoid California tax by improperly sheltering income, and increasing use tax collection. Figure REV-6 provides additional detail on these measures.

For 2004-05, the Governor's Budget and revenue forecast reflect the following:

- **Personal Income Tax Integrated Nonfiler Compliance (INC) Program—** The Governor's Budget proposes to identify additional taxpayers who do not file tax returns, but owe personal income tax. The proposal is estimated to increase revenues by $12 million in 2004-05, and $43 million in 2005-06.

FIGURE REV–6

2003-04 Revenue Measures
Summary of Fiscal Impact
(Dollars in Millions)

Chapter/Bill Number	Description	Fiscal Impact 2003-04	2004-05	2005-06
Chapter 656/SB 614	Restrict abusive tax shelters	$90.0	$90.0	$50.0
Chapter 224/AB 1751	A portion of the sales tax revenue on gasoline remains in the General Fund	87.5	0.0	0.0
Chapter 718/SB 1009	Increase use tax collection on income tax returns	10.2	8.2	8.2
Chapter 655/SB 103	Regulated Investment Companies (RIC): prevent improper tax sheltering	10.0	0.0	0.0
Chapter 712/SB 808	Sales tax exemption on bunker fuel	-8.8	-17.5	-17.5
Various	Other (includes collection activities, Treasury Offset Program, etc.)	10.7	2.8	2.8
	Total	**$188.9**	**$83.5**	**$43.5**

- **Sales tax on gasoline—**The sales tax on gasoline and diesel sales is allocated for transportation purposes. A portion of the sales tax on gasoline (and diesel sales) is allocated to the Public Transportation Account (PTA). When gasoline prices are high relative to other sales, the PTA receives the "spillover" sales tax revenues. The Governor's Budget proposes to maintain the base level of transfers to the PTA, but specifies that any excess sales tax revenue on gasoline remains in the General Fund, thereby increasing General Fund revenues by $17.5 million in 2003-04, above the $87.5 million expected at the 2003 Budget Act. This is a mid-year spending reduction proposal.

- **Natural Heritage Preservation Tax Credit—**The Governor's Budget proposes to suspend the award of credits for two years, 2003-04 and 2004-05, for a General Fund revenue savings of $8.7 million in 2003-04 and $10.3 million in 2004-05. This is a mid-year spending reduction proposal.

- **Indian Gaming Revenues—**It is the intent of the Administration to renegotiate tribal gaming compacts with California's 64 tribes that have gaming compacts, and to negotiate new compacts with any additional tribes that wish to commence class III gaming. Part of any such renegotiation will include demands by the State that tribes currently gaming, or those wishing to game, pay a significant share of revenues to the State. Current estimates of annual income to California tribes as a result of gaming operations range between $3 billion and $5 billion. The Administration has announced a target State share of such revenues to be 25 percent on an annual basis. While it is uncertain that the Administration will actually receive the State's target revenue percentage as a result of negotiations during calendar year 2004, there clearly will be improved revenue streams to the State from tribal gaming operations during 2004-05. Given that the full State share of 25 percent of tribal revenues may take some time to achieve, the Governor's Budget projects $500 million in additional revenue to the State from tribal gaming operations in 2004-05.

Revenues in Total

Overall, General Fund revenues and transfers represent 79 percent of total revenues. The remaining 21 percent are special funds dedicated to specific programs. The three largest revenue sources (personal income, sales, and corporation taxes) account for about 73 percent of total revenues.

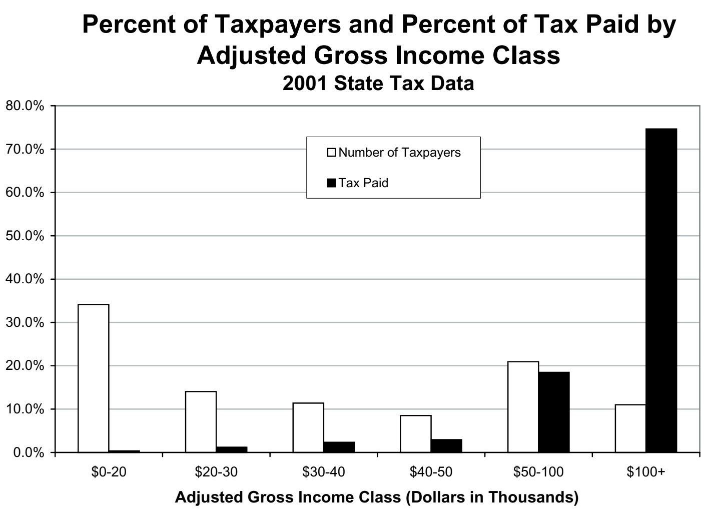
Personal Income Tax—$38.043 Billion

The personal income tax, the State's largest revenue source, is expected to contribute 50 percent of all General Fund revenues and transfers in 2004-05. Personal income tax revenues are forecast to increase by 7.4 percent for 2003-04 and 8.3 percent for 2004-05.

The California personal income tax is closely modeled after the federal income tax law. California's tax is imposed on net taxable income—that is, gross income less exclusions and deductions. The tax is progressive, with rates ranging from 1 percent to 9.3 percent. Personal, dependent, and other credits are allowed against the gross tax liability.

In addition, taxpayers may be subject to an alternative minimum tax (AMT), which is much like the federal AMT. This feature is designed to ensure that excessive use of tax preferences does not reduce taxpayers' liabilities below a minimum level. The AMT is equal to 7 percent of the alternative minimum taxable income that exceeds an exemption amount.

FIGURE REV–7



The personal income tax is adjusted annually by the change in the California Consumer Price Index to prevent taxpayers from being pushed into higher tax brackets by inflation only, without a real increase in income.

The challenge in forecasting personal income tax receipts is increased by the progressive nature of the tax, since one dollar of income on a high-income tax return can generate nine times the revenue from a dollar on a low-income return. In addition, very high-income taxpayers usually have considerable discretion over the timing of income and deductions. Thus, substantial changes in the portfolios or tax planning of relatively few high-income taxpayers can have a dramatic effect on State revenues. In 2001, for example, the top 11 percent of State taxpayers, those with adjusted gross incomes of over $100,000, paid 75 percent of the personal income tax. This is demonstrated in Figure REV-7, which shows the percent of total returns and tax paid by adjusted gross income class. Data for 2002 will be available in the spring.

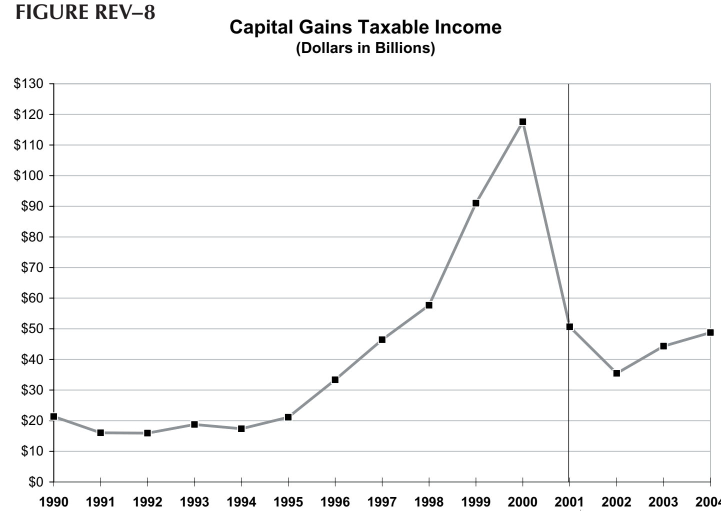
The stock market boom in the late 1990s—with Northern California's new high-technology Internet stocks leading the charge—swelled the State's personal income tax revenues. From 1995-96 through 2000-01, revenues grew at double-digit annual rates, primarily due to the exceptional growth in market-related income such as capital gains and stock options, which had become an increasingly common component of wage packages. In 2000-01, 25 percent of General Fund revenues were attributed to these two revenue sources, up from 6 percent in 1995-96. Capital gains income in 2000 was almost six times the level in 1995, stock option income had grown to ten times its 1995 level, and personal income tax revenues had more than doubled. In addition to the nearly vertical rise in capital gains and stock option income, revenue volatility was intensified by the fact that these market-related income sources were concentrated among high-income taxpayers: those at the highest marginal tax rate, where as previously noted, one dollar of income can generate nine times the revenue from a dollar on a low-income return.

Although it was clear that such phenomenal stock gains could not continue indefinitely and that revenues were increasingly vulnerable to a market turnaround, it was not clear when that turnaround would occur or how steep it would be. It occurred in 2001 and the drop was precipitous. Combined capital gains and stock option income fell by more than 50 percent and 2001-02 personal income tax revenues tumbled by $11.6 billion—a 26 percent decline from the prior fiscal year.

Personal income tax revenue fell another 1 percent in 2002-03, the fiscal year when returns for the 2002 tax year were filed. Based on preliminary 2002 tax year data provided by the Franchise Tax Board, it is estimated that capital gains dropped another 30 percent in 2002, after declining by 57 percent in 2001.

This forecast assumes that the revenue bubble that burst in 2001-02 and 2002-03 is now completely deflated and moderate growth will resume in 2003-04. Based on improved performance in the stock market during 2003 and a more positive outlook for 2004, capital gains income is projected to increase 25 percent in 2003 and 10 percent in 2004. Over the same time period, combined capital gains and stock option income is forecast to increase 19 percent and 18 percent, respectively. The level of capital gains from 1990 through 2004 is shown in Figure REV-8. Aside from the assumptions regarding stock market performance, another key factor underlying this forecast is the expectation that the general economy has begun to grow more quickly and will continue to do so in 2004 and 2005.

FIGURE REV–8



Personal income tax revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are as follows:

Personal Income Tax Revenue
(Dollars in millions)

2002-03 (Preliminary)	$32,710
2003-04 (Forecast)	$35,117
2004-05 (Forecast)	$38,043

Sales Tax—$25.022 billion

Receipts from sales and use taxes—the State's second largest revenue source—are expected to contribute 33 percent of all General Fund revenues in 2004-05. Sales and use taxes are imposed on the retail sale or use of tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions are provided for certain necessities such as food for home consumption, prescription drugs, and electricity, making the tax more progressive than it would be otherwise. Additional

FIGURE REV–9

State and Local Sales and Use Tax Rates

State Rates		
General Fund	4.75% or 5.00%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 5%, but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. During 2001, the rate was 4.75%, and during 2002, this rate is 5.00%.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 State-local realignment.
Local Uniform Rates[1]		
Bradley-Burns	1.00%[2]	Imposed by city and county ordinance for general purpose use.[3]
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.
Local Add-on Rates[4]		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.25% increments up to a combined maximum of 2.0% in any county.[5] Any ordinance authorizing a transactions and use tax requires approval by the county Board of Supervisors or special purpose authority created by the county Board of Supervisors plus two-thirds of the voters.

[1] These locally-imposed taxes are collected by the State for each city and county and are not included in the State's revenue totals.

[2] The 1 percent rate may temporarily decrease by 0.25 percent on July 1, 2004, if voters approve the economic recovery bond proposal on the March 2004 ballot. Cities and counties would receive additional property tax revenues equal to the 0.25 percent sales tax reduction. A new 0.25 percent special fund sales tax would be implemented to repay the economic recovery bonds.

[3] The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

[4] These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the State for each jurisdiction and are not included in the State's revenue totals.

[5] The two exceptions to the 2 percent maximum are Los Angeles County, which may exceed the limit by 0.5 percent and San Diego County, which is subject to a 1 percent maximum. Fresno, Nevada, Solano, and Stanislaus may levy transactions and use taxes in increments of 0.125 percent. To date, 39 counties and countywide special districts levy transactions and use taxes. Nine cities also impose transactions and use taxes on less than a countywide basis.

exemptions provide targeted tax relief for a variety of sales ranging from custom computer programs to goods used in space flight.

A summary of the sales and use tax rates currently imposed at the State and local levels is presented in Figure REV-9. Combined State and local tax rates currently imposed in each county are summarized in Figure REV-10.

Taxable sales declined by 0.1 percent in both 2001 and 2002. These declines followed year-over-year increases of 10 percent and 11.9 percent in 1999 and 2000, respectively. Preliminary data received for the first three quarters of 2003 indicate that growth in taxable sales has returned: sales for 2003 are expected to be up by 2.3 percent compared to 2002. Taxable sales are anticipated to grow at a faster rate in 2004 and 2005 due to the improving economy, increasing by 5.8 percent and 5.4 percent, respectively.

The sales and use tax revenue forecast is prepared by relating taxable sales by type of

FIGURE REV–10

Combined State and Local Sales and Use Tax Rates by County

(Rates in Effect on January 1, 2003)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	8.25%	Madera	7.75%	San Joaquin	7.75%
Alpine	7.25%	Marin	7.25%	San Luis Obispo	7.25%
Amador	7.25%	Mariposa	7.75%	San Mateo	8.25%
Butte	7.25%	Mendocino	7.25%	Santa Barbara	7.75%
Calaveras	7.25%	Merced	7.25%	Santa Clara	8.25%
Colusa	7.25%	Modoc	7.25%	Santa Cruz	8.00%
Contra Costa	8.25%	Mono	7.25%	Shasta	7.25%
Del Norte	7.25%	Monterey	7.25%	Sierra	7.25%
El Dorado [1/]	7.25%	Napa	7.75%	Siskiyou	7.25%
Fresno [2/]	7.875%	Nevada [6/]	7.375%	Solano	7.375%
Glenn	7.25%	Orange	7.75%	Sonoma [7/]	7.50%
Humboldt	7.25%	Placer	7.25%	Stanislaus	7.375%
Imperial [3/]	7.75%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside	7.75%	Tehama	7.25%
Kern	7.25%	Sacramento	7.75%	Trinity	7.25%
Kings	7.25%	San Benito	7.25%	Tulare	7.25%
Lake [4/]	7.25%	San Bernardino	7.75%	Tuolumne	7.25%
Lassen	7.25%	San Diego	7.75%	Ventura	7.25%
Los Angeles [5/]	8.25%	San Francisco	8.50%	Yolo [8/]	7.25%
				Yuba	7.25%

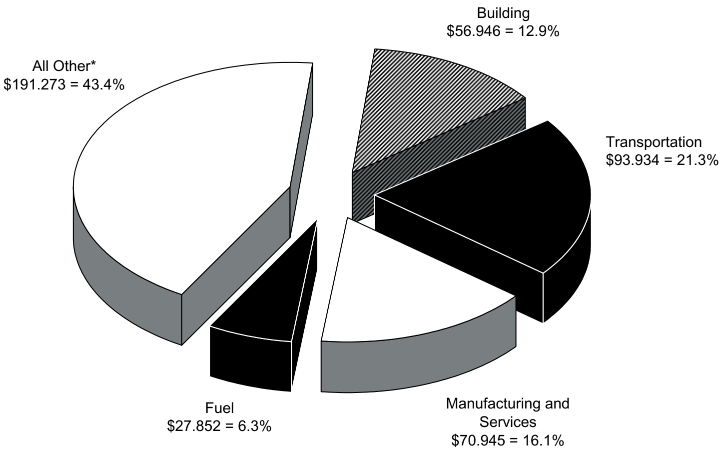
[1/] 7.50% for sales in the City of Placerville (City of Placerville Public Safety Transactions and Use Tax).
[2/] 8.175% for sales in the City of Clovis (City of Clovis Public Safety Transactions and Use Tax).
[3/] 8.25% for sales in the City of Calexico (Calexico Heffernan Memorial Hospital District).
[4/] 7.75% for sales in the City of Clearlake (City of Clearlake Public Safety Transactions and Use Tax).
[5/] 8.75% for sales in the City of Avalon (Avalon Municipal Hospital and Clinic Transactions and Use Tax).
[6/] 7.875% for sales in the Town of Truckee (Town of Truckee Road Maintenance Transactions and Use Tax).
[7/] 7.625% for sales in the City of Sebastopol (City of Sebastopol Transactions and Use Tax).
[8/] 7.75% for sales in both the City of Woodland (City of Woodland General Revenue Transactions and Use Tax) and the City of West Sacramento (City of West Sacramento Transactions and Use Tax).

goods purchased to economic factors such as income, employment, housing starts, new vehicle sales, and inflation. Details for 2002 sales by major component are presented in Figure REV-11. The forecast is then adjusted for significant legislation and other factors expected to affect sales tax revenues.

Effective January 1, 2002, the State sales tax rate returned to 5 percent after having fallen to 4.75 percent during the 2001 calendar year. This rate change was a result of a provision enacted in the early 1990s (Chapter 119, Statutes of 1991) that triggered a quarter-cent reduction in the tax rate if the State reserve exceeded 4 percent of General Fund revenues and transfers, during a two fiscal year period. This trigger formula was amended as part of the 2001 Budget Act (Chapter 156, Statutes of 2001) to require that the surplus exceed revenues by only 3 percent for a single year in order to activate the sales tax rate reduction. Consistent with what was assumed in the 2003 Budget Act, the reserve level was

FIGURE REV–11

2002 Taxable Sales by Major Components
(Dollars in Billions)



* Includes apparel, general merchandise, specialty goods, eating and drinking establishments, and agricultural goods.

not sufficient to trigger an additional year of reduction for 2004.

Current law specifies that certain State revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account (PTA). However, the Governor's Budget proposes to maintain the base level of transfers to the PTA, but specifies that any excess sales tax revenues on gasoline, which would otherwise be designated as PTA "spillover", be credited to the General Fund, for 2003-04 only. This is expected to increase General Fund revenues by $17.5 million in 2003-04, above the $87.5 million expected at the 2003 Budget Act.

FIGURE REV–12

Sales Tax Revenue
(Dollars in Thousands)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
General Fund	$22,415,138	$23,714,000	$25,022,000
Sales and Use Tax—Realignment	2,279,419	2,359,300	2,493,500
Public Transportation Account	204,468	210,445	202,848
Total	**$24,899,025**	**$26,283,745**	**$27,718,348**

The total transfer to the PTA is estimated to be $210 million in 2003-04 and $203 million in 2004-05. This money is excluded from General Fund totals.

Chapter 91, Statutes of 2000, created the Traffic Congestion Relief Fund. During 2000-01, $500 million was transferred from the Retail Sales Tax Fund to this new fund from the sales tax on gasoline. Chapter 91 also required that for each quarter during the period commencing on July 1, 2001, and ending on June 30, 2006, the General Fund sales tax revenue from gasoline be transferred to the Transportation Investment Fund (TIF), with a portion of this transferred to the Traffic Congestion Relief Fund. Chapter 113, Statutes of 2001, delayed the implementation of this provision until July 1, 2003, but also added two years to the end of the Traffic Congestion Relief Program by extending the transfer of the sales tax on gasoline for two years.

Proposition 42, passed by voters in March 2002, amended the California Constitution to permanently dedicate the sales taxes on gasoline to transportation purposes beginning in 2003-04. The proposition included a provision that allows the Administration and the Legislature to suspend the sales tax transfer in a fiscal year if the transfer would result in a significant negative fiscal impact on the range of functions of government funded by the General Fund. Due to continued weakness in General Fund revenue, the Governor's Budget includes a suspension of the 2004-05 General Fund transfer to the TIF. This proposal will provide more than $1.1 billion in General Fund relief.

Revenues from State-imposed sales tax rates are shown in Figure REV-12. The following table shows the General Fund sales tax revenue forecast for 2003-04 and 2004-05, compared with preliminary 2002-03 collections:

Sales and Use Tax Revenue
(Dollars in millions)

2002-03 (Preliminary)	$22,415
2003-04 (Forecast)	$23,714
2004-05 (Forecast)	$25,022

Corporation Tax—$7.609 billion

Corporation tax revenues are expected to contribute 10 percent of all General Fund revenues in 2004-05. These revenues are derived from five taxes:

- The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that do not do business in the state but derive income from California sources. An example of this type of out-of-state company would be a corporation that maintains a stock of goods in California from which deliveries are made to fill orders taken by independent dealers or brokers.

- Corporations that have a limited number of shareholders and meet other requirements to qualify for State Subchapter S status are taxed at a 1.5 percent rate rather than the 8.84 percent imposed on other corporations. (Subchapter S status provides the limited liability of corporate status combined with the tax advantages of partnerships—i.e., the S-corporation's profits and losses flow through to its shareholders and are subject to tax at the appropriate personal income tax rate.)

- Banks and other financial corporations pay an additional 2 percent tax (i.e., "bank tax") on their net income. This tax is in lieu of local personal property taxes and business license taxes, but in addition to the franchise tax.

- The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that high-income taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.

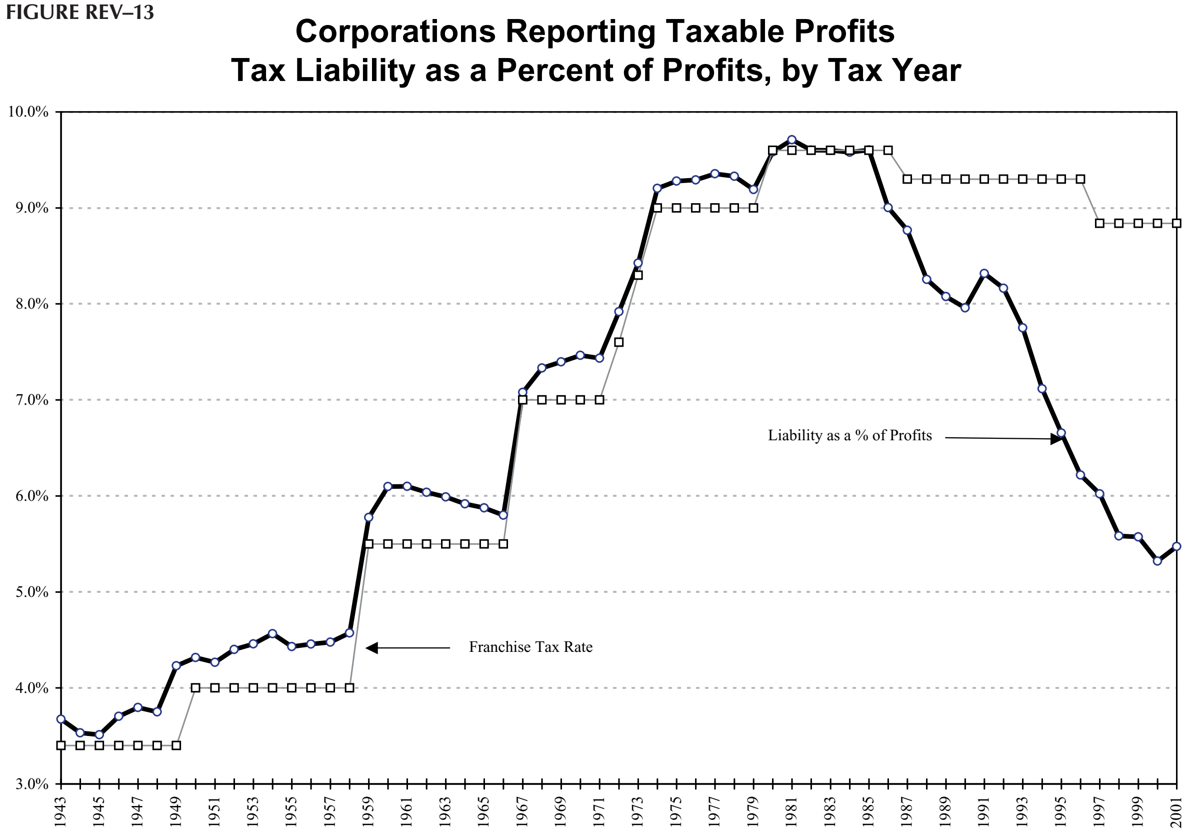
- A minimum franchise tax of $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax.

In forecasting the corporation tax, the relationship of California taxable profits to national corporate profits is important. The forecast also involves analysis of the trend in California's non-farm employment level, California's unemployment rate relative to that of the nation's, as well as recent actual cash experience for this tax.

In recent years, S-corporation activity and use of credits (largely the research and development credit and the manufacturer's investment credit) were the primary factors contributing to a divergence between profit and liability growth. The election of S-corporation status results in a reduced corporate rate, with the income and tax liability on that income shifted to the personal income tax. S-corporations accounted for 31.2 percent of total taxable profits in 2001, whereas in 1991, their share was only 14.7 percent. This diverging trend between profits and liabilities can be seen in Figure REV-13.

Consistent with the economic outlook and reflecting a rather strong growth of corporation tax revenues in 2002-03, corporation tax revenues are expected to increase by 9.7 percent in 2003-04 and 1.9 percent in 2004-05. The estimate reflects the fiscal effects of legislation enacted in 2003, including the abusive tax shelters provisions

FIGURE REV–13



(Chapters 654 and 656, Statutes of 2003), and the provisions prohibiting banks to use specific mutual funds structures for tax avoidance purposes (Statutes 655, Statutes of 2003). The estimate also includes the sunset of the Manufacturers' Investment Credit (MIC) on January 1, 2004, as provided under existing law.

Corporation tax revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are as follows:

Corporation Tax Revenue
(Dollars in Millions)

2002-03 (Preliminary)	$6,804
2003-04 (Forecast)	$7,466
2004-05 (Forecast)	$7,609

Insurance Tax—$2.078 billion

The majority of insurance written in California is subject to a 2.35 percent gross premiums tax. This premium tax takes the place of all other State and local taxes except those on real property and motor vehicles. The basis of the tax is the amount of "gross premiums" received, less return premiums, upon business done in California.

There are some exceptions. Insurers transacting title insurance are taxed upon all income received in this state, with the exceptions of interest, dividends, rents from real property, profits from the sale or disposition of investments, and income arising out of investments. Ocean marine insurers are taxed upon underwriting profits at a 5 percent rate. Other exceptions to the 2.35 percent rate include certain pension and profit-sharing plans, including qualified annuities, which are taxed at a lower rate of 0.5 percent, and certain specialized lines of insurance that are taxed at 3 percent.

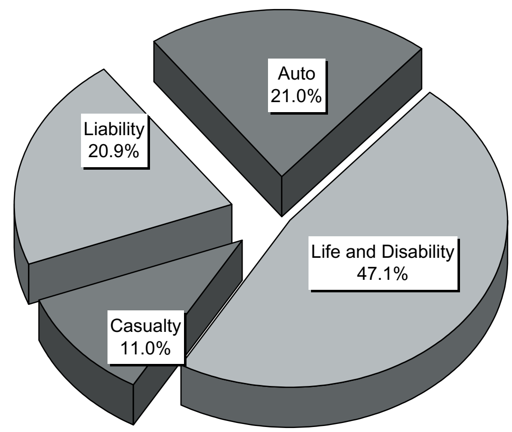
The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from almost 300 insurance companies, which represent approximately 65 percent of the insurance written in California.

Figure REV-14 illustrates the proportion of premiums written by insurance type from which the revenue is derived. For 2002, $92.7 billion in taxable premiums written were reported, an increase of 14.3 percent over 2001. The most recent survey indicates that premiums written will increase by 7.5 percent in 2003 and by 9.1 percent in 2004. Due to factors such as tax deferrals, averaging, and various applied tax rates, revenues grow at different rates than premiums written. On a calendar year basis, revenues are expected to grow by 7.8 percent in 2003 and by 5.4 percent in 2004 based on survey responses.

This year's survey continues a fairly positive outlook for the property and casualty premium lines. The demand for most types of property-casualty insurance has held constant over the past few years since these lines are not particularly economically sensitive. However, life insurance premiums declined over 13 percent in 2001, but are up slightly since then. Double-digit growth in the workers compensation line from 2001

FIGURE REV–14

Insurance Premiums by Category



through 2003 is expected to slow to about 4 percent for 2004. Long-term, it is generally expected that demand for annuity products will increase with the aging population.

Revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are as follows:

Insurance Tax Revenue
(Dollars in Millions)

2002-03 (Preliminary)	$1,880
2003-04 (Forecast)	$1,985
2004-05 (Forecast)	$2,078

Estate/Inheritance/Gift Taxes—$135.4 million

Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The pick-up tax is computed on the basis of the federal "taxable estate," with tax rates that range from 0.8 percent to 16 percent. This tax does not increase the liability of the estate due to the fact that it would otherwise be paid to the federal government.

The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminates it beginning in 2005. Revenues will decline by more than $1 billion from what they would have been in 2004-05, absent these changes in federal law. The provisions of the federal Act sunset after 2010; at that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted to make the provisions permanent.

Revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are as follows:

Estate, Inheritance, and Gift Tax Revenue
(Dollars in Millions)

2002-03 (Preliminary)	$647.4
2003-04 (Forecast)	$396.8
2004-05 (Forecast)	$135.4

FIGURE REV–15

Beer, Wine, and Distilled Spirits Revenue
(Dollars in Millions)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
Beer and Wine	$150.3	$148.0	$148.0
Distilled Spirits	140.2	144.0	146.0
Total	**$290.5**	**$292.0**	**$294.0**

Alcoholic Beverage Taxes—$294 million

Taxes on alcoholic beverages are levied on the sale of beer, wine, and distilled spirits. The rates vary with the type of alcoholic beverage.

The tax rate per gallon for beer, dry wine, and sweet wine is $0.20. The tax rates per gallon for sparkling wine and distilled spirits are $0.30 and $3.30, respectively.

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Overall, consumption of alcoholic beverages is expected to remain relatively flat over the forecast period.

Revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are shown in Figure REV-15.

Cigarette Tax—$115 million

Proposition 10 increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes of 50 cents per pack. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds allocated to the Cigarette and Tobacco Products Surtax Fund. Thus, this proposition increased the total excise tax on other tobacco products by an amount equivalent to an increase in the cigarette tax of $1 per pack.

The State excise tax on cigarettes of 87 cents per pack is allocated as follows:

- Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution as specified in Proposition 10.

- Twenty-five cents of the per-pack tax on cigarettes, and the equivalent rates levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.

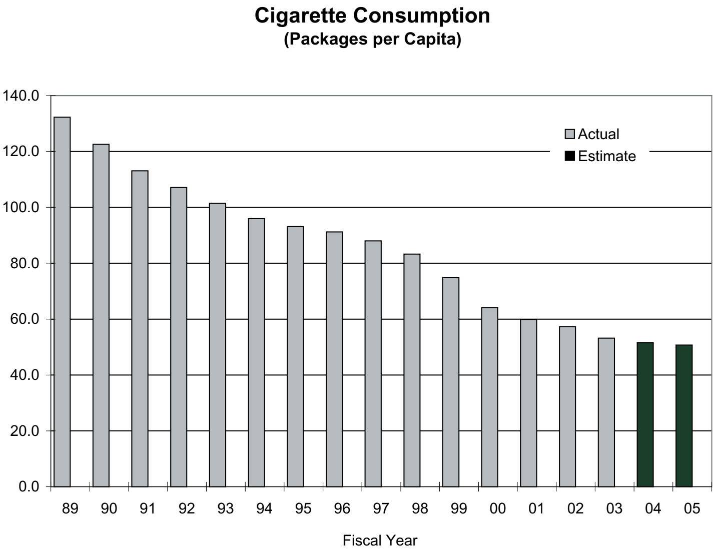
- Ten cents of the per-pack tax is allocated to the State's General Fund.

- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of total and per capita consumption of cigarettes provide the basis for the cigarette tax estimate. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and State anti-smoking campaigns funded by Proposition 99 revenues and revenues from the Master Tobacco Settlement have all significantly reduced cigarette consumption.

Per capita consumption (based on population ages 18-64) declined on average 3.5 percent annually from 1982-83 through 1987-88, and then decreased even more rapidly with the onset of Proposition 99. During 1989-90, per capita consumption was about 123 packs versus 83 packs in 1997-98—a 33 percent decrease over eight years. Price increases stemming from tobacco litigation—in conjunction with the State's excise tax hike in 1999—further reduced per capita consumption by approximately 36 percent over the last five years to 53 packs in 2002-03. The long-term downward trend in taxable consumption should continue to reduce cigarette sales in the range of 3.5 percent annually.

FIGURE REV–16



Wholesale price data provide the basis for the revenue estimate for other tobacco products, which include items such as cigars, chewing tobacco, and snuff. For 2002-03 other tobacco products contributed 4.2 percent to total tobacco revenues. Historically these taxes

FIGURE REV–17

Tobacco Tax Revenue
(Dollars in Millions)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
General Fund	$114.9	$115.0	$115.0
Cigarette and Tobacco Products Surtax Fund	322.3	310.0	308.0
Breast Cancer Fund	22.9	23.0	23.0
California Children and Families First Trust Fund	595.4	585.0	583.0
Total	**$1,055.5**	**$1,033.0**	**$1,029.0**

have generally contributed less than 5 percent to the total of all the tobacco revenues collected on an annual basis. Based on recent consumption patterns, the long-term use of other tobacco products is expected to decrease at a rate similar to cigarettes.

Per capita consumption of cigarette packs from 1988-89 through 2004-05 is illustrated in Figure REV-16. Total tobacco tax revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are shown in Figure REV-17.

Special Fund Revenue

The California Constitution, codes, and statutes specify the uses of certain revenues, with receipts accounted for in various special funds. In general, special fund revenues consist of three categories of income:

- Receipts from tax levies that are allocated to specified functions, such as motor vehicle taxes and fees.
- Charges for special services provided for specific functions, including such items as business and professional license fees.
- Rental royalties and other receipts designated for particular purposes—for example, oil and gas royalties.

Taxes and fees related to motor vehicles comprise about 37 percent of all special fund revenue. Principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2004-05, $7.9 billion in revenues will be derived from the ownership or operation of motor vehicles, a 5.3 percent increase from the 2003-04 level. About 39 percent of all taxes and fees collected on motor vehicles will be returned to local governments. The remaining portion is available for various State programs related to transportation and services to vehicle owners.

Chapter 85, Statutes of 1991, created the Local Revenue Fund for the purpose of State-local program realignment. Revenue attributable to a 0.5 percent sales tax rate is transferred to this special fund. During 2004-05, local governments are expected to receive $2.5 billion from this revenue source, up 5.7 percent from 2003-04. In addition to this revenue, approximately 24 percent of all vehicle license fees (including amounts backfilled by the General Fund) are transferred to the Local Revenue Fund. In 2003-04, this percentage was adjusted upward to hold the Local Revenue Fund harmless from the effects of the reduced level of fees due to the suspension of the offsets, which is described in the section below.

The Proposition 10 tobacco-related taxes are collected to primarily support early childhood development programs as specified. These proceeds are deposited to the California Children and Families First Trust Fund and are estimated at $585 million in 2003-04, and $583 million in 2004-05. Funds from the Proposition 99 tobacco-related taxes are allocated to a special fund for distribution to a variety of accounts as determined by the measure. Receipts for this fund are estimated at $310 million in 2003-04 and $308 million in 2004-05. An additional $23 million for breast cancer research will be generated in both 2003-04 and 2004-05 by the 2 cents-per-pack cigarette tax enacted in 1993. The original 10 cents-per-pack tax on cigarettes is allocated to the General Fund.

Motor Vehicle Fees, $4.58 billion—Motor vehicle fees consist of vehicle license, registration, weight, and driver's license fees, and various other charges related to vehicle operation.

The vehicle license fee (VLF) is imposed for the privilege of operating a vehicle on public highways in California. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. All of the revenues from this tax, other than administrative costs and fees on trailer coaches and mobile homes, are constitutionally dedicated to local governments.

The VLF is calculated on the vehicle's "market value," which is the cost to the purchaser exclusive of sales tax, adjusted by a depreciation schedule. For motor vehicles, the schedule is based on an 11-year depreciation period; an 18-year depreciation period is used for trailer coaches. A 2 percent rate is applied to the depreciated value to determine the fee. Thus, revenue from this source is contingent on the number of vehicles in California, the ages of those vehicles, and their most recent sales prices.

As part of the State-local program realignment, Chapter 87, Statutes of 1991, revised the vehicle license fee depreciation schedule and required the Department of Motor Vehicles to reclassify used vehicles based upon their actual purchase price each time the ownership of the vehicle is transferred. All of the revenue from this base change is transferred to local governments.

Chapter 322, Statutes of 1998, established a program to offset a portion of the vehicle license fees paid by vehicle owners. This program is referred to as an "offset" rather than a tax credit, because the total amount of VLF legally due from the taxpayer was not changed. Instead, the State paid or "offset" a portion of the amount due, and taxpayers paid the remaining balance. Beginning January 1, 1999, a permanent offset of 25 percent of the amount of the VLF owed became operative. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent offset through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning on July 1, 2001, the VLF was permanently reduced by 67.5 percent.

This offset is expected to provide tax relief of $3.952 billion in 2003-04 and $4.062 billion in 2004-05. The General Fund has generally backfilled the offset so that the tax relief did not result in a revenue loss to local governments. As the amount paid by taxpayers has decreased due to increased tax relief, the amount backfilled by the General Fund has increased. However, in June 2003, the Director of Finance under the prior Administration sent a letter to the Department of Motor Vehicles and the Department of Housing and Community Development stating that there would be insufficient moneys available to be transferred from the General Fund to fund the offsets and General Fund offset payments to local governments were subsequently suspended. Chapter 231, Statutes of 2003, anticipated that an October 2003 fee increase would replace the funding lost from the suspension of the offsets, except for $825 million lost in the first part of the fiscal year due to the lag, or gap, in implementing the higher fees, and authorized repayment of the gap loss in August 2006. That loss is now estimated by the Department of Motor Vehicles to be about $1.3 billion.

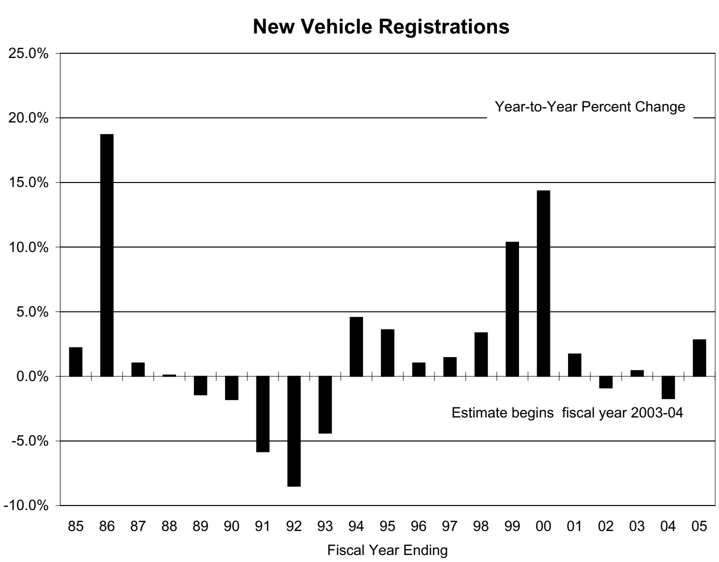
On November 17, 2003, Governor Schwarzenegger issued Executive Order S-1-03 which provided that the prior Administration's suspension of the vehicle license fee offsets was in error in that it was not based on a reasonable interpretation of the statutes. The Executive Order therefore rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible.

News articles indicate vehicle sales slowed after the offset was suspended, particularly for high-end vehicles. Once the offset was reinstated, sales reportedly picked up. The Governor's Budget forecast assumes that the suspension and reinstatement of the offset will only affect the timing of when auto sales occurred, but will not affect the annual level of sales.

In order to hold local governments harmless from the restoration of the offsets, Executive Order E-03/04-56 was issued on December 19, 2003. This Executive Order transferred approximately $150 million from other budget items, and instructed the State Controller to issue additional payments, which are estimated at about $2.5 billion, for total backfill funding to local governments in 2003-04 of approximately $2.7 billion.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations

FIGURE REV–18



(mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF, which in this instance is administered by the Department of Housing and Community Development rather than the Department of Motor Vehicles. All other mobile homes are subject to the local property tax. Chapter 699, Statutes of 1992, provided that all trailer coach license fees that are administered by the Department of Motor Vehicles be deposited in the General Fund. Beginning in 1994-95, all other trailer coach license fees are also deposited in the General Fund.

Chapter 861, Statutes of 2000, replaced the current weight fee schedule for commercial trucks, which was based on unladen weight, with a gross vehicle weight schedule. This change was necessary to conform to the federal International Registration Plan by January 1, 2002. While Chapter 861 was intended to be revenue-neutral, the new fee schedule resulted in a substantial reduction in weight fee revenues. In order to address the revenue shortfall, Chapter 719, Statutes of 2003 was enacted to adjust the fee schedule to achieve revenue neutrality and improve enforcement.

Chapter 861 also provided that the vehicle license fee will no longer be charged on commercial trailers, and the loss in revenue to local governments from that exclusion will be backfilled by the General Fund. In order to address the current General Fund revenue shortfall, the Administration proposes that legislation be introduced to eliminate this backfill in 2004-05.

Allowing for scrappage and for vehicles entering and leaving California, the total number of fee-paid registrations, (autos, trucks, trailers, and motorcycles) including multistate vehicles, is estimated at 29,055,000 for 2003-04 and 29,929,000 for 2004-05, a 3 percent increase. As can be seen in

Figure REV-18, the 14.4 percent growth in new vehicle registrations in 1999-00 was at a 14-year high. This dramatic growth was due to extremely strong vehicle sales at that time. Vehicle sales have declined from these record highs and have remained stable at between 2.3 million and 2.4 million since 1999-00. The forecast assumes 2.37 million new registrations in 2004-05.

Motor vehicle fees revenue is summarized in Figure REV-19.

FIGURE REV–19

Motor Vehicle Fee Revenue
(Dollars in Thousands)

	2002-03 Actual	2003-04 Forecast	2004-05 Forecast
Vehicle License Fees	$1,429,025	$1,307,685	$1,479,964
Realignment	442,123	594,909	475,849
Registration, Weight, and Other Fees	2,018,454	2,301,286	2,622,885
Total	**$3,889,602**	**$4,203,879**	**$4,578,698**

Motor Vehicle Fuel Taxes, $3.32 billion—The motor vehicle fuel tax (levied on gasoline), diesel fuel tax (levied on diesel), and the use fuel tax (levied on alternative fuels such as liquefied petroleum gas, natural gas, and alcohol fuel) provide the major sources of funds for maintaining, replacing, and constructing State highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

The motor vehicle fuel tax (gas tax) is collected from distributors at the terminal rack level (i.e., the point at which fuel is loaded into ground transportation). Motor vehicle fuel is taxed at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline, natural gasoline, and specified blends of gasoline and alcohol sold for vehicular use on California public streets and highways.

The Motor Vehicle Fuel Tax Law also applies an excise tax of 2 cents per gallon on aircraft jet fuel sold at the retail level. Certain sales are exempt from the aircraft jet fuel tax, including those to certified air common carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Chapter 912, Statutes of 1994, established the Diesel Fuel Tax Law. Prior to the operative date of Chapter 912, diesel fuel had been taxed under the Use Fuel Tax Law. The diesel fuel tax is collected from distributors at the terminal rack level and applies to diesel fuel and blended diesel fuel sold for use in propelling highway vehicles. Undyed diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for tax-exempt uses, is not taxed.

Chapter 1053, Statutes of 2000, required that the State excise tax on gasoline be collected at the terminal rack level, rather than at the level at which the fuel changes ownership. Standardizing the point of collection conforms to federal law and is expected to increase compliance.

The use fuel tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels remain untaxed until they are dispensed into a motor vehicle that is operated on California highways or is suitable for highway operation. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight in lieu of the 6 cents-per-gallon tax.

The Mills-Hayes Act specifies that a fuel tax rate of 1 cent per gallon be levied on fuel used by local transit systems, school and community college districts, and certain common carriers. This excise tax is imposed in lieu of the other fuel taxes described above. Gasoline consumption has grown slowly over time, as conservation efforts have offset economic growth. Gasoline consumption rose 1.2 percent during 2002-03, and is estimated to increase by 1.7 percent in 2003-04 and by another 0.1 percent in 2004-05. The long-term growth rate for gas consumption is approximately 1.6 percent.

Because the majority of diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Diesel fuel consumption decreased by 2.0 percent in 2002-03, and is expected to rise by 3.1 percent in 2003-04 and 4.1 percent in 2004-05, due to the improving economy.

Proposition 111, enacted in June 1990 to generate new transportation funding, increased gasoline and diesel fuel tax rates by 5 cents per gallon each, effective August 1, 1990. Proposition 111 also increased gas and diesel fuel tax rates by an additional 1 cent-per-gallon each January 1 thereafter, until an 18-cent-per-gallon rate became effective January 1, 1994. The rates have remained constant since that time. Revenues raised by Proposition 111 equaled $1.57 billion during 2002-03, and are expected to be $1.59 billion and $1.61 billion during 2003-04 and 2004-05, respectively.

FIGURE REV–20

Motor Vehicle Fuel Tax Revenue
(Dollars in Thousands)

	2002-03 Actual	2003-04 Forecast	2004-05 Forecast
Gasoline [1/]	$2,725,706	$2,804,573	$2,806,676
Diesel	474,378	493,321	512,842
Total	**$3,200,084**	**$3,297,894**	**$3,319,518**

[1/] Does not include jet fuel.

Motor vehicle fuel revenues are shown in Figure REV-20.

Tax Relief and Local Government Financing Audit Findings

Tax Relief (Expenditure Items)

Tax Relief (minus vehicle license fee offset)

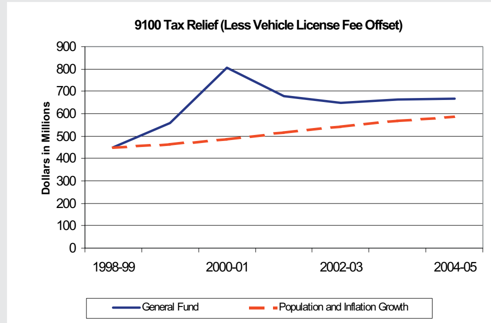
California homeowners and renters are provided assistance through a variety of tax relief programs. Additional relief is provided to low-income senior citizens and disabled persons, and to individuals who agree to hold their land in open space under the Williamson Act of 1965.

Motor Vehicle License Fee Relief

Vehicle owners are also provided relief from their VLFs. In 1998, an offset of 25 percent of the amount of the VLF owed was established. This program is referred to as an "offset" rather than a tax credit, because the total amount of VLF legally due from the taxpayer was not changed. Instead, the State paid or "offset" a portion of the amount due, and taxpayers paid the remaining balance, so that the tax relief did not result in a revenue loss to local governments. The offset percentage increased in subsequent years as additional resources became available and was permanently set at 67.5 percent beginning in 2001.

On June 20, 2003, the Director of Finance determined that there would be insufficient moneys available to be transferred from the General Fund to reimburse local governments for the offsets. This resulted in suspension of the offsets for bills due on or after October 1, 2003. Since the elimination of funding for the offsets was

Key Audit Findings—Tax Relief

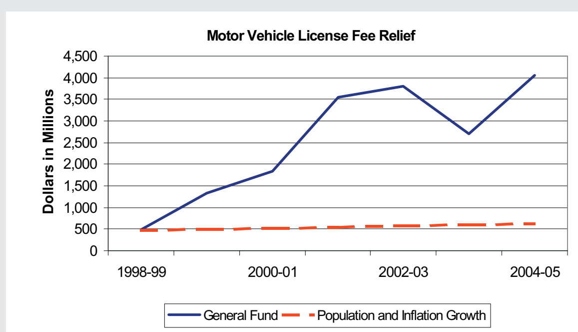


- From 1998-99 to the 2003 Budget Act, General Fund expenditures have increased from $449 million to $667 million, an increase of $218 million, or approximately 49 percent.
- Expenditures have been above population and inflation growth mainly due the Senior Citizens' Property Tax and Renters' Assistance programs, which were increased in 2000-01 by 150 percent (one-time) and by 45 percent in 2001-02 (ongoing) above the 1998-99 levels.

immediate, local governments experienced a "gap" in funding. At the time the 2003 Budget Act was enacted, it was estimated that this loss to local governments would amount to $825 million. Chapter 231, Statutes of 2003, provided that this funding gap would be repaid to local government in 2006-07. In November 2003, the Department of Motor Vehicles provided estimates to the Department of Finance indicating that the amount of loan from local governments due to the implementation lag had increased to nearly $1.3 billion, rather than the $825 million that had been anticipated.

On November 17, 2003, the Director of Finance determined that the finding of the previous Director was in error and Governor Schwarzenegger issued Executive Order S-1-03, which provided that the prior Administration's suspension of the vehicle license fee offsets was not based on a reasonable interpretation of the statutes. The Executive Order therefore rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible. Consistent with Chapter 231, the Administration requested the Legislature to increase the local government loan due

Key Audit Findings—Motor Vehicle License Fee Relief



- In 2004-05, funding for vehicle license fee relief will be $4.1 billion.
- 2003-04 expenditures are reduced by $1.3 billion due to the "gap" loan authorized by Chapter 231, Statutes of 2003.
- Expenditures have been above population and inflation growth due to increases in the vehicle license fee tax relief provided.

to the implementation lag from $825 million to $1.3 billion. On December 18, 2003, Governor Schwarzenegger authorized the payment of $2.65 billion to local governments to fully fund the 2003-04 offset, using authority in Section 27 of the 2003 Budget Act and Revenue and Taxation Code Sections 10754, 11000, and 11001.5. The Governor's Budget assumes that the offset for the remainder of the current year and in the budget year will be fully funded at $2.65 billion in 2003-04 and $4.06 billion in 2004-05.

Local Government Financing

Local Government Financing

Local governments receive a number of subventions from the State for designated purposes such as health, human services, and public safety programs. These local assistance expenditures are reflected in the individual budget areas for each specific program. (See the State-Local Assistance Section for a broader view of this overall assistance.) In addition, several programs have been established to provide general-purpose revenue to cities, counties, and special districts when special circumstances have occurred. The Local Government Financing program includes those payments to local governments where the funds may be used for any general government purpose as well as funds for one-time, designated purposes. In order to deal with the State's current fiscal problem, several programs previously funded in this budget were eliminated last year including:

- High Technology Grants ($18.5 million)
- Small/Rural County Sheriff Grants ($18.5 million)
- Redevelopment Agency Subventions ($1.4 million)

Program Enhancements and Other Budget Adjustments

Booking Fee Reimbursement—The Governor's Budget proposes to eliminate reimbursement to cities and special districts for booking fees paid to counties ($38.2 million). In addition, the Administration will be supporting AB 1749, a bill that would eliminate counties' ability to charge booking fees.

Key Audit Findings— Local Government Financing

- From 1998-99 to the 2003 Budget Act, General Fund expenditures have increased from $176 million to $299 million, an increase of $123 million, or approximately 70 percent.
- Expenditures have been above population and inflation growth largely due to one-time assistance to local governments and local public safety grants.
- Most of the subventions in this budget have either been reduced or eliminated.

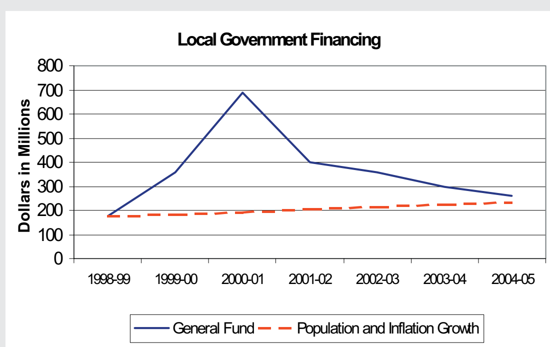


FIGURE REV–21

Summary of State Tax Collections

(Excludes Departmental, Interest, and Miscellaneous Revenue)

	Per Capita Personal Income [1/2/]	State Tax Collections (Dollars in Millions) General Fund	Total	Taxes per Capita [1/] General Fund	Total	Taxes per $100 of Personal Income [3/] General Fund	Total
1967-68	$3,878	$3,558	$4,676	$185.55	$243.86	$4.78	$6.29
1968-69	4,199	3,963	5,173	203.94	266.21	4.86	6.34
1969-70	4,535	4,126	5,409	208.96	273.94	4.61	6.04
1970-71	4,812	4,290	5,598	214.08	279.36	4.45	5.81
1971-72	5,034	5,213	6,597	256.22	324.24	5.09	6.44
1972-73	5,451	5,758	7,231	279.72	351.28	5.13	6.44
1973-74	5,947	6,377	7,877	305.57	377.45	5.14	6.35
1974-75	6,552	8,043	9,572	379.85	452.06	5.80	6.90
1975-76	7,091	9,050	10,680	420.19	495.87	5.93	6.99
1976-77	7,814	10,781	12,525	491.48	570.98	6.29	7.31
1977-78	8,569	12,951	14,825	579.41	663.25	6.76	7.74
1978-79	9,620	14,188	16,201	621.30	709.45	6.46	7.38
1979-80	10,845	16,904	19,057	726.83	819.41	6.70	7.56
1980-81	12,038	17,808	20,000	748.80	840.97	6.22	6.99
1981-82	13,209	19,053	21,501	784.78	885.62	5.94	6.70
1982-83	13,782	19,567	22,359	788.83	901.39	5.72	6.54
1983-84	14,505	22,300	25,674	880.14	1,013.30	6.07	6.99
1984-85	15,944	25,515	29,039	988.34	1,124.85	6.20	7.05
1985-86	16,934	26,974	30,898	1,021.63	1,170.25	6.03	6.91
1986-87	17,661	31,331	35,368	1,158.18	1,307.41	6.56	7.40
1987-88	18,665	31,228	35,611	1,126.67	1,284.81	6.04	6.88
1988-89	19,763	35,647	40,613	1,255.49	1,430.39	6.35	7.24
1989-90	20,819	37,248	43,052	1,278.16	1,477.32	6.14	7.10
1990-91	21,978	36,828	43,556	1,234.66	1,460.22	5.62	6.64
1991-92	21,992	40,072	48,856	1,315.63	1,604.02	5.98	7.29
1992-93	22,641	39,197	48,230	1,264.95	1,556.46	5.59	6.87
1993-94	22,805	38,351	48,941	1,224.73	1,562.93	5.37	6.85
1994-95	23,320	41,099	50,648	1,303.77	1,606.71	5.59	6.89
1995-96	24,328	44,825	54,805	1,413.54	1,728.24	5.81	7.10
1996-97	25,418	47,955	58,400	1,500.37	1,827.15	5.90	7.19
1997-98	26,549	53,859	64,826	1,659.66	1,997.63	6.25	7.52
1998-99	28,348	58,199	69,724	1,771.02	2,121.72	6.25	7.48
1999-00	29,785	70,027	81,773	2,095.53	2,447.03	7.04	8.22
2000-01	32,334	75,668	88,147	2,222.88	2,589.48	6.87	8.01
2001-02	32,536	62,654	73,237	1,804.21	2,108.96	5.55	6.48
2002-03 [p/]	32,693	64,879	75,420	1,836.05	2,134.36	5.62	6.53
2003-04 [e/]	33,367	69,104	80,120	1,923.08	2,229.65	5.76	6.68
2004-05 [e/]	34,721	73,315	86,106	2,010.09	2,360.78	5.79	6.80

[1/] Per capita computations are based on July 1 populations estimates, benchmarked to the 1990 Census.
[2/] Personal income data are on a calendar year basis (e.g., 2002 for 2002-03).
[3/] Taxes per $100 personal income computed using calendar year personal income (e.g. 2002 income related to 2002-03 tax collections).
[p/] Preliminary.
[e/] Estimated.

FIGURE REV–22

Outline of State Tax System
as of January 1, 2004

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	$0.20	Equalization [1]	General
Distilled Spirits	Gallon	$3.30	Equalization	General
Dry Wine	Gallon	$0.20	Equalization	General
Sweet Wine	Gallon	$0.20	Equalization	General
Sparkling Wine	Gallon	$0.30	Equalization	General
Hard Cider	Gallon	$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% [2]	Franchise [3]	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Income	6.65% [2]	Franchise	General
Tobacco:				
Cigarette	Package	$0.87 [4]	Equalization	Cigarette Tax, Cigarette and Tobacco Products Surtax, Breast Cancer Act, and Calif. Children and Families First Trust Fund.
Other Tobacco Products	Wholesale price	48.89% [5]	Equalization	Cigarette and Tobacco Products Surtax California Children and Families First Trust Fund
Energy Resources Surcharge	Kilowatt hours	$0.0002	Equalization	Energy Resources Surcharge Fund
Horse Racing License	Amount wagered	0.4% - 2.0%	Horse Racing Board	Fair & Expo[6], Satellite Wagering [7], Wildlife Restoration, and General
Estate	Taxable Federal estate	0.8-16.0%	Controller [8]	General
Insurance	Gross Premiums	2.35% [9]	Insurance Dept.	General
Liquor license fees	Type of license	Various	Alcoholic Beverage Control	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	2.0% [10]	Motor Vehicle Dept	Motor Vehicle License Fee and Local Revenue[11]
Fuel—Gasoline	Gallon	$0.18	Equalization	Motor Vehicle Fuel[12]
Fuel—Diesel	Gallon	$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	$30.00	Motor Vehicle Dept	Motor Vehicle[13]
Weight Fees	Gross Vehicle Weight	Various	Motor Vehicle Dept	State Highway[14]
Personal Income	Taxable income	1.0-9.3%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Income	7.0%	Franchise	General
Private Railroad Car	Valuation	[15]	Equalization	General
Retail Sales and Use	Receipts from sales or lease of taxable items	5.50% [16]	Equalization	General and Local Revenue

Source: State of California, Department of Finance

1 State Board of Equalization.

2 Minimum tax $800 per year for existing corporations. New corporations are exempted from the minimum franchise tax for the first two years of operations.

3 Franchise Tax Board.

4 This tax is levied at the combined rate of 10 cents per pack of 20 cigarettes for the General Fund, 25 cents per pack for the Cigarette and Tobacco Products Surtax, 2 cents per pack for the Breast Cancer Act, and 50 cents per pack for the California Children and Families First Trust Fund.

5 A tax equivalent to the tax on cigarettes; rate reflects the 50 cents per pack established by the California Children and Families First Initiative.

6 For support of county fairs and other activities.

7 For construction of Satellite Wagering Facilities and health and safety repairs at fair sites.

8 State Controller's Office

9 Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, and nonadmitted insurance.

10 Beginning January 1, 1999, vehicle owners paid only 75 percent of the calculated tax, and the remaining 25 percent (offset percentage) was paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapter 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent credit through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF offset was set at 67.5 percent. On June 20, 2003, the Director of Finance sent a letter to the DMV and the HCD stating that there would be insufficient monies available to be transferred from the General Fund to fund the offsets, so the offset was subsequently suspended. The 67.5 percent offset was reinstated effective November 18, 2003.

11 For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

12 For administrative expenses and apportionment to State, counties and cities for highways, airports and small craft harbors.

13 For support of State Department of Motor Vehicles, California Highway Patrol, other agencies and motor vehicle related programs.

14 For State highways and State Department of Motor Vehicles administrative expense. Chapter 861, Statutes of 2000, replaced the current weight fee schedule for trucks, which is based on the unladen weight of commercial trucks and trailers, with a new schedule based on the gross weight capacity of trucks alone, in order to comply with the International Registration Plan standards. Chapter 719, Statutes of 2003, increased weight fees to achieve revenue neutrality as specified in Chapter 861.

15 Average property tax rate in the State during preceding year.

16 Includes a 5.00 percent rate for the State General Fund and Public Transportation Account and a 0.50 percent rate to the Local Revenue Fund for realignment.

FIGURE REV–23

Comparative Yield of State Taxes, 1970-71 through 2003-04
Includes both General and Special Funds
(Dollars in Thousands)

Year Ending June 30	Sales and Use (a)	Personal Income	Corporation (b)	Tobacco (c)	Estate Inheritance and Gift (d)	Insurance (e)	Alcoholic Beverage (f)	Horse Racing (g)	Motor Vehicle Fuel (h)	Vehicle Fees (i)
1971	$1,808,052	$1,264,383	$532,091	$239,721	$185,699	$158,423	$106,556	$64,601	$674,635	$513,202
1972	2,015,993	1,785,618	662,522	247,424	220,192	170,179	112,091	69,380	712,426	547,845
1973	2,198,523	1,884,058	866,117	253,602	260,119	179,674	114,884	72,693	746,196	596,922
1974	2,675,738	1,829,385	1,057,191	258,921	231,934	201,697	119,312	78,289	742,702	644,448
1975	3,376,078	2,579,676	1,253,673	261,975	242,627	202,991	120,749	86,637	752,234	664,453
1976	3,742,524	3,086,611	1,286,515	268,610	316,648	241,224	125,313	96,117	766,555	749,936
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	127,485	102,702	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	132,060	111,591	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,955	420,184	140,059	112,856	896,591	1,021,856
1980	6,623,521	6,506,015	2,510,039	290,043	465,611	446,228	138,940	127,002	852,752	1,096,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	460,926	142,860	129,779	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	276,824	482,300	454,984	139,523	119,626	833,446	1,373,354
1983	7,795,488	7,701,099	2,536,011	271,621	517,875	736,929	136,209	120,159	928,633	1,614,993
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	137,433	141,001	1,213,167	1,906,290
1985	9,797,564	10,807,706	3,664,593	262,868	296,805	643,139	135,786	133,814	1,159,637	2,137,326
1986	10,317,930	11,413,040	3,843,024	258,141	252,810	839,939	132,262	131,592	1,194,172	2,515,295
1987	10,904,022	13,924,527	4,800,843	255,076	273,089	1,008,804	131,288	131,733	1,245,881	2,692,835
1988	11,650,531	12,950,346	4,776,388	250,572	304,148	1,158,321	128,734	132,208	1,293,254	2,966,334
1989	12,650,893	15,889,179	5,138,009	559,617	335,091	1,317,630	128,264	143,379	1,320,512	3,142,484
1990	13,917,771	16,906,568	4,965,389	787,076	388,527	1,167,684	128,524	147,920	1,349,146	3,305,711
1991	13,839,573	16,852,079	4,544,783	745,074	498,774	1,287,152	129,640	148,279	1,999,771	3,513,159
1992	17,458,521	17,242,816	4,538,451	726,064	446,696	1,167,307	321,352	130,042	2,457,229	4,369,862
1993	16,598,863	17,358,751	4,659,950	677,846	458,433	1,188,181	292,107	114,037	2,412,574	4,470,321
1994	16,857,369	17,402,976	4,809,273	664,322	552,139	1,196,921	275,797	118,215	2,547,633	4,518,795
1995	16,273,800	18,608,181	5,685,618	674,727	595,238	998,868	268,957	108,974	2,685,731	4,749,594
1996	17,466,584	20,877,687	5,862,420	666,779	659,338	1,131,737	269,227	106,057	2,757,289	5,009,319
1997	18,424,355	23,275,990	5,788,414	665,415	599,255	1,199,554	271,065	90,627	2,824,589	5,260,355
1998	19,548,574	27,927,940	5,836,881	644,297	780,197	1,221,285	270,947	81,930	2,853,846	5,660,574
1999	21,013,674	30,894,865	5,724,237	976,513	890,489	1,253,972	273,112	61,185	3,025,226	5,610,374
2000	23,451,570	39,578,237	6,638,898	1,216,651	928,146	1,299,777	282,166	44,130	3,069,694	5,263,245
2001	24,287,928	44,618,532	6,899,322	1,150,869	934,709	1,496,556	288,450	42,360	3,142,142	5,286,542
2002	23,795,936	33,051,107	5,333,030	1,102,806	890,627	1,595,846	292,627	42,247	3,295,903	3,836,795
2003	24,899,025	32,709,761	6,803,559	1,055,505	647,372	1,879,784	290,564	42,028	3,202,511	3,889,602
2004 *	26,283,755	35,117,000	7,466,000	1,033,000	396,800	1,985,000	292,000	42,245	3,300,369	4,203,880
2005 *	28,974,348	38,043,000	7,609,000	1,029,000	135,400	2,078,000	294,000	42,457	3,322,018	4,578,699

(a) Includes the 0.25 percent sales tax, which would be effective July 1, 2004, if approved by California voters in March 2004. This sales tax would be for repayment of economic recovery bonds.
(b) Includes the corporation income tax and, from 1989 through 1997, the unitary election fee.
(c) Proposition 99 (November 1988) increased the cigarette tax to $0.35 per pack and added an equivalent tax to other tobacco products.
The Breast Cancer Act added $0.02 per pack effective 1/1/94.
Proposition 10 (November 1998) increased the cigarette tax to $0.87 per pack and added the equivalent of $1.10 tax to other tobacco products.
(d) Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduces the State pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminates it beginning in 2005.
(e) The conclusion of litigation resulted in additional revenue of $51 million in 1987-88, $178 million in 1988-89, $7 million in 1990-91, and $5 million in 1991-92. It also resulted in refunds of $46 million in 1993-94, $127 million in 1994-95, $39 million in 1995-96, $15 million in 1996-97, and $30 million in 1997-98.
(f) Alcoholic beverage excise taxes were significantly increased effective July 15, 1991.
(g) Beginning in 1988-89, includes revenues from satellite wagering that were not included in prior years.
(h) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.
(i) Registration and weight fees, motor vehicle license fees, and other fees. Due to the offset program, 1998-99 vehicle license fee values reflect a 25 percent reduction for 1999. The values reflect a 35 percent reduction from January 1, 2000, through June 30, 2001, and a 67.5 percent reduction thereafter. 2004-05 figures exclude a "gap loss" estimated at $1.3 billion which will be paid in August 2006 as required by Chapter 231, Statutes of 2003.

* Estimated.